Sub

QUINTE-CANLIN LIMITED

REVIEW OF THE ANNUAL MEETINGS OF QUINTE-CANLIN LIMITED AND ERIE DIVERSIFIED INDUSTRIES LIMITED TEXTS OF REMARKS TO SHAREHOLDERS

Remarks of the President, J.O. McCutcheon

QUINTE-CANLIN LIMITED

Annual Meeting of Shareholders, Toronto, Ontario, June 28, 1971

I have much pleasure in welcoming you to our annual shareholders' meeting. This is the second annual meeting at which I have been in the chair and I am pleased to be able to report on a much healthier situation this year.

Last year I advised you that the major concern of your board was to find a solution to the continuing losses of the Wellington plant. It became clear to us during 1970 that it would not be possible to obtain sufficient new milk quota to make the plant viable. The alternative course of action of selling our quota to others was decided on and the plant was closed as of October 1, 1970.

We entered into an arrangement with Pet Milk, at Napanee, by which they will pay for our milk quota as received over the next five years. We estimate that the total payment will be about \$140,000. In addition, we have applied to the Ontario Government under the new act respecting consolidation of milk processing plants and believe that we are eligible for assistance. We are now engaged in selling off the fixed assets and have realized about \$50,000 to date. The directors are hopeful that net receipts from these actions will cover the various balance sheet liabilities associated with Wellington. In any case, your company entered the current year freed from the serious Wellington operating losses experienced in 1970.

You have all had opportunity to review the annual report which describes the restructuring which has taken place in your company. Operations are now conducted through Canlin and its subsidiaries and Quinte-Canlin has become a central core supplying senior management and management services such as central computing facilities for financial and administrative operations.

Our major holding is Canlin Limited. The annual report describes Canlin's operations and prospects in some detail. Canlin's accounting was formerly on an April 30 year-end; this has been changed to December 31 so as to coincide with that of Quinte-Canlin. To date in 1971, Canlin is experiencing a good year and is operating at full capacity.

While originally a processor of linseed oil for the floor covering and paint and coating trades, Canlin in recent years has gone into the crushing of rapeseed to produce edible oils for margarine, salad oils and cooking oils, and into industrial chemicals, mainly those used in paints and coatings. Canlin's present plant, whose origins go back to 1901, is now fully utilized. We must keep pace with changing technology and we are considering the construction of a new facility. A decision as to the best method of proceeding will likely be taken in the near future. In the meantime, we expect profits to be maintained but not to grow.

Late in 1969, Canlin purchased a 50% interest in an Alberta company, Diversified Crops Ltd., which could serve as its raw material base through purchasing, cleaning and shipping oilseeds. As its capacity is considerably greater than Canlin's demand, it also exports oilseeds, principally rapeseed to Japanese markets. Diversified's year-end is July 31 and present indications are that it will show a small profit in its first year of operations under Canlin's control. The outlook for the following year is for improvement and Canlin may exercise its right to increase its holdings in Diversified.

Rapeseed has shown truly phenomenal growth as a crop in Canada--about 30% a year--and is becoming a major factor in the world supply of edible oils. Canlin and Diversified should both benefit from this growth.

In September, 1970, Canlin purchased a controlling interest in the common stock of Erie Diversified Industries Ltd., a public company engaged principally in the home furnishings and furniture industries. Erie stock is listed on the Toronto Stock Exchange. The bulk of the Erie purchase was made at $5 per share, of which $2 was in cash and $3 in the form of a ten-year debenture with the majority of interest waived during the first five years. Purchase under such advantageous conditions was made possible by the stock market decline of 1969–70.

Erie's outlook for 1971 is very favorable. It is operating in an area directly affected by new housing construction and new family formations, both of which are expected to be strong in 1971 and for several years thereafter. Erie stock has been firm in recent months and your company's investment in Erie has appreciated accordingly.

You have recently been advised of results of the first quarter of 1971. Consolidated sales were $3,445,000 and earnings per combined common and Class A share were eight cents. At present, all indications are that the second quarter will be at least as good and that results will continue to improve through 1971.

Your management has established a target to attain consolidated sales at an annual rate of $20 million by the end of 1971, while preserving profit margins. The stagnation and other problems which have been evident at Quinte for the last six years are at an end, and we can look forward to continuation of the present positive trend, with possibilities of new and profitable developments.

Remarks of the President, F.A. Litwin

ERIE DIVERSIFIED INDUSTRIES LIMITED

Annual Meeting of Shareholders, Toronto, Ontario, June 28, 1971

It is a pleasure to welcome you to our annual meeting of shareholders. The annual report was sent to you earlier and you have had opportunity to examine comments on the important changes which have taken place in the company's structure and in its earning power.

At last year's annual meeting, I reported to you that we had entered into an agreement to sell the Wood Products Division because it was suffering severe operating losses and the outlook was not favorable. This transaction was completed during 1970 and, in early 1971, the Container Division, H.A. Ball & Sons Ltd., was also sold. As stated in the annual report, Ball was a minor factor in your company's business and margins were small. Disposal of these two divisions has allowed us to concentrate Erie's activities in home furnishings and furniture and has provided an improvement in liquidity which will assist expansion in these areas.

The company's operating divisions are now Lanark Furniture, manufacturers of high-quality upholstered furniture, Stitsky's Textile Centres, which have expanded with the acquisition of Martin Draperies to a total of 17 outlets across Canada, and A & A Fabrics, a textile wholesaler.

We believe that Canada is entering a new phase of growth in household formations which affect these market areas and your company is now prepared to participate fully in them. The latest economic forecasts for 1971 look for the very large increase in Canadian housing dollar investment of 23.7% over 1970, and an increase in consumer spending of 7.7%. Further, the greatest improvement in consumer spending is expected to be in durables and household goods. If these forecasts are attained, we can look for a growing volume of business throughout 1971 and 1972.

In the financial statements in the annual report it is shown that $500,000 of long-term debt comes due in 1971, resulting from acquisition of our member companies. This included a $50,000 note from the Stitsky purchase which came due on May 31 and $400,000 that will come due on July 31. It is a pleasure to inform you that all these notes have now been retired, using funds generated through the company's normal business activities. Further, at the present time, a total of $105,000 of the company's subordinated long-term debentures have been redeemed or purchased for cancellation.

Total long-term debt is now reduced to $540,850 of which $395,000 is the long-term debentures. It is obvious that the company is now much stronger financially and we can continue to press for growth, both internally and by acquisition, in our chosen fields.

The acquisition of Martin Draperies was announced to you on May 11. In the last two months considerable strides have been made in integrating the Stitsky and Martin operations. The aggressive young Martin management group which is in charge has a strong incentive on an earn-out basis to get the most out of the combined operation. The original group of seven Stitsky outlets, plus the eight Martin outlets, have now been further expanded to 17 through the opening of two new stores. Just a few days ago, we opened a second store in Shoppers' World, Brampton, where Simpson's announced last week that it will go ahead with a multi-million dollar installation. We look for considerable growth in sales and for maintained or improved margins in the Stitsky side of our business.

You have received first quarter results for 1971 showing a sales increase of nearly 40% over the corresponding quarter of 1970, on a comparable basis, and reporting a profit of 12 cents per share against a loss in 1970. Indications now show that the first half is following the same positive trend, with Lanark's performance being particularly strong. The second half is, by the way, traditionally the strongest part of the year in our business.

We are negotiating with a privately-owned furniture company whose products complement Lanark's and we intend to pursue expansion of this division. We believe that we have at Lanark some of the best operating management in the Canadian furniture industry and we want to make more use of its talents. To facilitate this expansion, I can report that we have under discussion a possible private placement. If this is successful, it will broaden our equity base for both Lanark and other expansion which we see ahead.

I can report to shareholders that, in our view, the new 1971 Lanark furniture line is highly appealing and I invite any shareholder to visit the showroom in our new plant on Supertest Road, in Downsview.

QUINTE-CANLIN LIMITED

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF WORKING CAPITAL

for the six months
ended June 30, 1971

Sources of Working Capital from Operations		
Net earnings for the period	$ 90,093	
Add: depreciation and amortization	51,481	
Minority interest	86,351	$ 227,925
Sale of Wellington plant assets		53,719
Sale of Mortgages Receivable		173,686
Disposal of H.A. Ball & Sons Ltd.	244,063	
Less: Long-term debt assumed by purchaser	205,000	39,063
Issue of shares		43,330
Reduction of Mortgages receivable		2,633
		$ 540,356
Application of Working Capital		
Purchase of fixed assets		114,303
Reduction of long-term debt (net of discount)		178,628
Acquisition of shares of subsidiary less working capital at date of acquisition		107
		$ 293,038
Increase in Working Capital		247,318
Working Capital at beginning of period		956,490
Working Capital at end of period		$1,203,808

(This is an unaudited statement)

QUINTE-CANLIN LIMITED

INTERIM REPORT
SIX MONTHS
ENDED JUNE 30,
1971.

To the Shareholders:

The following consolidated financial results of Quinte-Canlin for the six months ended June 30, 1971 are presented by your board of directors.

Results for the corresponding periods of 1970 are included for completeness but are not properly comparable. Your company has changed from a milk and cheese processor to a supplier of senior management and management services to the operating subsidiaries acquired during the last year. There were no extraordinary items in 1971 and the 1970 results have been restated to exclude such items.

Sales for the first half of the year are $7,404,609 ($2,967,364 in 1970) and net earnings per share are 18.2¢. (a loss of 18.9¢ in 1970) with both sales and earnings showing a strong increase from the first to the second quarter.

The outlook for the balance of the year is for a continuation of the positive trend experienced so far in both sales and earnings.

On behalf of the board,

J.O. McCutcheon

J.O. McCutcheon,
President

Montreal, Quebec
September 8, 1971

QUINTE-CANLIN LIMITED

CONSOLIDATED INCOME STATEMENT

	For the second quarter 1971	For the second quarter 1970	For the six months to June 30 1971	For the six months to June 30 1970
Sales and fees	$3,959,170	$270,314	$7,404,609	$2,967,364
Cost of sales	3,091,559	280,547	5,791,317	2,844,045
Gross Margin	867,611	(10,233)	1,613,292	123,319
Selling and Administrative Expenses	684,805	39,529	1,289,748	173,844
	182,806	(49,762)	323,544	(50,525)
Taxes on income	78,653	....	147,100	12,900
	104,153	(49,762)	176,444	(63,425)
Minority Interests	51,974	....	86,351	1,911
Net Income (Loss) for the period	$ 52,179	$(49,762)	$ 90,093	$ (65,336)
Earnings per share	10.3¢	(16.7¢)	18.2¢	(18.9¢)

(This is an unaudited statement)

Notes:

1. Figures for 1970 are restated to exclude the effect of the extraordinary item as there are no such items in 1971.

2. The operations of Canlin Limited and Erie Diversified Industries Limited are consolidated in the 1971 figures. 1970 figures are made up of Canlin Limited and the operations of the milk processing plant which was closed at October 1, 1970.

QUINTE-CANLIN LIMITED

1971 ANNUAL REPORT

QUINTE-CANLIN LIMITED

1971 ANNUAL REPORT

Directors	
J. L. Bodie	Vice-President, BACM Industries Limited
Jean J. O. Gravel	Professional Engineer
Robert S. Litvack	Partner, Chait, Salomon, Gelber, Reis, Bronstein & Litvack
Frederick A. Litwin	President, Erie Diversified Industries Limited
John O. McCutcheon	President, Quinte-Canlin Limited
Officers	
John O. McCutcheon	President
Frederick A. Litwin	Vice-President
Raymond F. Wright, C.A.	Vice-President Finance and Secretary-Treasurer
Auditors	
Hyde, Houghton & Co.	Toronto & Montreal
Registrar and Transfer Agent	
Canada Permanent Trust Company	Toronto & Montreal
Guaranty Trust of Canada	Toronto
Bankers	
Bank of Montreal	Montreal

Offices

Suite 2106, 401 Bay Street,
Toronto 103, Ontario

2215 Notre Dame Street East,
Montreal 133, Quebec

Directors' Report to the Shareholders

1971 was a year of progress for the Quinte-Canlin Group with all operating companies reporting profitable results. Both the fabric and furniture divisions of Erie Diversified experienced substantial growth during the year. Consolidated sales for the Group were $17,974,691, over double that of the preceding year. Consolidated profits after income taxes were $140,753 compared to $14,235 in 1970.

Canlin & Diversified Crops

Canlin operated virtually at capacity throughout the year. On January 1, 1971, Canlin increased its interest in Diversified Crops from 50% to 83.3% and financial results of the two companies are consolidated for the first time in this report. Diversified's oilseed inventory is carried on bank credit, and the increased bank indebtedness shown on the Balance Sheet from 1970 to 1971 is mainly due to the inclusion of Diversified's accounts. Diversified processed approximately 2,300,000 bushels of oil seeds through its three cleaning plants in Edmonton, Calgary and Portage La Prairie for shipment to Canlin and to export markets. This was a good improvement over 1970, but plant production was held back by difficulties in clearing export shipments through the Port of Vancouver. We believe that Diversified Crops' rate of growth will increase once the Vancouver terminal problems are resolved.

Erie Diversified

Erie Diversified's operations are now concentrated in the two fields of furniture manufacturing and drapery and fabric retailing. Both operations showed strong growth in 1971. The Lanark Furniture Division had an excellent year of internal expansion and increased profitability. The Martin Draperies chain was acquired and consolidated with Stitsky's in 1971. The Stitsky's-Martin Division achieved sales of approximately $4,000,000 in 1971 through 19 stores.

Electronic data processing is being installed at Stitsky's-Martin and the December 31, 1971 inventory taken at that division was placed in the computer for the first time. A large discrepancy was found between the book inventory and the computer tabulations, and the Erie Board of Directors has decided to retake the inventory at June 30, 1972. In the interim, they are providing a special reserve in the 1971 Erie accounts for approximately 50% of the discrepancy. In consolidating the Erie results with Quinte-Canlin, this provision has been carried through pro rata.

Outlook

The outlook for 1972 is good. Canlin is expected to continue operating at capacity and the bulk of its output is already contracted for. Diversified Crops, if improved access can be obtained through the Port of Vancouver, has the potential for major expansion in throughput and profitability. The Erie Diversified operations are maintaining a high growth rate, keeping pace with growing markets. The recent acquisition of Geoform Designs Inc., gives the furniture division a recognized position in the quality contemporary furniture market. Taking these factors into account, earnings for 1972 should be ahead of last year.

On behalf of the Board,

JO McCutcheon

John O. McCutcheon
President

June 9, 1972

Quinte-Canlin Group Consolidates and Expands

The Group's operations have been consolidated into two marketing areas in the past two years, one primarily industrial and the other consumer oriented. The industrial section, Canlin and Diversified Crops, cleans and markets oil seeds and produces vegetable oils and chemicals which are sold to major industries in Canada and abroad. The consumer section, Erie Diversified Industries, serves the home sewing and home furnishings markets.

The following article briefly describes each section so that our shareholders may be more fully aware of the nature of our holdings.

Canlin Limited

Canlin is the oldest company in the group and has the largest sales volume. The company, 92% owned by Quinte-Canlin, operates an oil seed crushing plant, a vegetable oil refinery and a chemical process plant in Montreal.

The company produces linseed oil for the paint, printing ink and vinyl flooring industries; rapeseed oil which is used in salad oils, cooking oils and margarine; and a range of industrial chemicals which are used to make a variety of coatings, adhesives and other products.

Canlin's results were approximately the same in 1971 as the previous year. Equity in Diversified Crops Limited (see below) was increased to over 80% and management looks forward to more participation in the growth of this company.

Canlin's seed crushing and oil refinery plants are operating at capacity. During the past five years the production of rapeseed to produce edible oil products has taken a larger share of plant output.

World and domestic markets for linseed oil are gradually shrinking. We have maintained production by taking an increasing share of domestic consumption and exporting to the U.K. market. Our chemical process plant has improved the profitability of our vegetable oil output. Demand for chemical products fell off in 1970 when the chemical industry experienced a severe decline and recovery has been slow compared to our other markets. However, the long-term prospect is for steady growth as demand for these sophisticated products increases and more uses are found for them.

In oil seed processing, our strategy is to increase production of edible oils where world markets are growing at a pace faster than that of population. North American demand is rising at a still faster pace and our per capita consumption is still below that of European countries. To participate more fully in the growth of the edible oil industry, Canlin must expand seed crushing and refining capacity substantially.

Diversified Crops, Ltd.

Diversified purchases flax and rapeseed from primary producers in the three prairie provinces for resale to domestic and foreign processors. Three seed cleaning plants are operated in Calgary, Edmonton and Portage La Prairie and a small gathering plant in Rycroft, Alberta.

While the company enjoyed a sales increase in 1971, results were restrained by difficulties experienced in moving export shipments through the Port of Vancouver. When these are resolved, Diversified has the potential of uninterrupted growth.

Canlin is the major domestic customer for flaxseed. While flaxseed volume is not expected to grow, acceptance of rapeseed as a major source of edible oil has been accelerating as new and improved strains have been introduced. Canadian production of rapeseed was close to 100 million bushels in 1971.

Japan, a high per capita consumer of edible oils is Diversified's largest foreign market. They are expected to buy increasing amounts over the next few years. Other export markets are opening up and rapeseed oil is expected to enjoy a larger share of the domestic market in the years ahead.

Erie Diversified Industries Limited

Erie Diversified is a holding company in which Quinte-Canlin holds 56% of the common stock. Its shares are listed on the Toronto Stock Exchange. Erie subsidiaries serve two major growth markets, furniture and retail fabrics. Two factories, one recently acquired, produce a broad range of upholstered and contemporary furniture for home and office use. The retail division operates a chain of fabric specialty stores in four provinces.

LANARK FURNITURE (1969) LIMITED

Lanark manufactures upholstered furniture in the medium price range for the home furnishings, office and institutional markets. Products are sold through leading furniture distributors and retailers.

Lanark has enjoyed an unusually good rate of growth over the past several years. The new plant which was opened in 1970, increasing production capacity by 50%, is presently operating at full capacity with up to 16 weeks lead time required for deliveries. The company will be opening an extension in the late fall which will represent a further expansion of manufacturing facilities of 40%.

Indications are that Lanark will continue to enjoy an unusually good rate of growth in volume and profit in 1972 and beyond.

GEOFORM DESIGNS INC.

Erie recently acquired this Montreal based manufacturer of high quality contemporary furniture for home and office. The product line compliments and expands that of our profitable furniture division.

Geoform has a well established reputation for innovative design. The line, which is colorful, attractive and sophisticated, is made of such non-traditional materials as chrome, steel tubing, fibreglass, moulded fibresins, vinyl, glass and vistram. The addition of the Erie group's furniture marketing knowhow will see an expansion of sales potential. Under the circumstances, there is every reason to anticipate substantial growth in volume and profitability in the next twelve months.

STITSKY'S-MARTIN

This subsidiary operates a chain of 19 fabric specialty stores which sell a complete range of fabrics, draperies, upholstery materials, trim, sewing notions and patterns. The chain experienced a healthy increase in sales volume in 1971.

Organizational Chart

Quinte-Canlin Limited
management services
computer services

Canlin Limited
Manufacturer of vegetable oils, animal meals & industrial chemicals
linseed oil
rapeseed oil
edible oils
animal meal
esters
plasticizers
synthetic urethanes
alkyd resins
industrial lubricants

Diversified Crops,Ltd.
Oil seed cleaning and distribution
flaxseed
rapeseed

Erie Diversified Industries Ltd.

Lanark Furniture (1969) Limited
Upholstered furniture manufacturer
sofas
chairs
chaises
ottomans

Geoform Designs Inc.
Contemporary furniture manufacturer
chairs
ottomans
chaises
dinette sets
stools
occasional tables
hi-bars
counters

Stitsky's-Martin
Retail fabric chain
fabrics
draperies
upholstery material
patterns
sewing notions
trim

QUINTE-CANLIN LIMITED

AND SUBSIDIARY COMPANIES

Consolidated Statement of Earnings and Retained Earnings

for the year ended December 31, 1971

	1971	1970
SALES	$17,977,097	$ 7,308,584
Cost of sales	14,439,103	6,396,139
Gross profit	3,537,994	912,445
Selling and administrative expenses	3,042,781	852,210
	495,213	60,235
Taxes on income	116,427	62,383
	378,786	(2,148)
Minority interest	143,322	12,609
EARNINGS (LOSS) BEFORE PROVISION FOR INVENTORY SHORTAGE AND EXTRAORDINARY ITEMS	235,464	(14,757)
Provision for inventory shortage (Note 2)	150,000	—
Earnings (loss) before extraordinary items	85,464	(14,757)
Extraordinary items (Note 9)	55,289	28,992
NET EARNINGS FOR THE YEAR	140,753	14,235
Retained earnings at beginning of year	40,363	26,128
RETAINED EARNINGS AT END OF YEAR	$ 181,116	$ 40,363

QUINTE-CANLIN LIMITED

AND SUBSIDIARY COMPANIES

Consolidated Balance Sheet

as at December 31, 1971

ASSETS

	1971	1970
CURRENT		
Accounts receivable	$ 2,845,338	$ 2,256,036
Due from — subsidiary company	—	43,514
— Diversified Crops, Ltd.	—	350,433
Inventory (Note 2)	2,941,052	1,436,261
Long-term receivables — current portion	62,165	59,933
Other	109,950	73,149
	5,958,505	4,219,326
INVESTMENTS		
Diversified Crops, Ltd. (Note 3)	—	183,618
Mortgages receivable	225,000	473,085
Other	8,000	8,000
Subsidiary company (Note 3)	—	244,063
	233,000	908,766
LONG-TERM ACCOUNTS RECEIVABLE (Note 4)	80,591	—
FIXED		
Real estate, buildings, equipment and leasehold improvements (Note 5)	2,946,255	3,032,908
Accumulated depreciation	1,912,180	2,278,328
	1,034,075	754,580
OTHER		
Excess of cost of investment in shares of subsidiaries over net book values at dates of acquisition	1,085,991	811,252
Goodwill acquired	800,000	800,000
Deferred cost of borrowing, less amortization	69,117	61,665
Deferred income tax charge	20,000	16,000
	1,975,108	1,688,917
	$ 9,281,279	$ 7,571,589

LIABILITIES

	1971	1970
CURRENT		
Bank indebtedness — secured	$ 2,023,540	$ 941,717
Accounts payable and accrued liabilities	2,589,321	1,491,879
Income taxes payable	80,447	70,192
Long-term debt — current portion	99,530	559,000
Notes payable	—	200,048
	4,792,838	3,262,836
LONG-TERM DEBT (Note 6)	1,258,760	1,479,130
MINORITY INTEREST IN NET ASSETS OF SUBSIDIARY COMPANIES	1,420,263	1,210,488
SHAREHOLDERS' EQUITY		
CAPITAL STOCK (Notes 7 and 8)		
AUTHORIZED:		
500,000 Participating Class "A" non-voting shares without par value, carrying a non-cumulative preferential dividend up to 12¢ per annum		
500,000 Common shares without par value		
ISSUED:		
359,110 Class "A" shares	735,742	692,412
148,125 Common shares	121,652	121,652
	857,394	814,064
RETAINED EARNINGS	181,116	40,363
Contributed surplus	12,400	6,200
Excess of book value of Canlin Limited at date of acquisition over cost of investment	758,508	758,508
	1,809,418	1,619,135
	$ 9,281,279	$ 7,571,589

Approved by the Board of Directors
J.O. McCutcheon, Director
F.A. Litwin, Director

QUINTE-CANLIN LIMITED

AND SUBSIDIARY COMPANIES

Consolidated Statement of Source and Application of Working Capital

for the year ended December 31, 1971

	1971	1970
SOURCE OF WORKING CAPITAL		
Operations:		
Net earnings for the year	$ 140,753	$ 14,235
Depreciation	193,171	110,934
Net loss (gain) on disposal of fixed assets	47,944	(182,854)
Write-down of fixed assets to estimated net realizable value (Note 5)	63,331	—
Minority interest	143,322	12,609
Deferred income tax charge	(4,000)	(1,818)
Sale of milk quota net of amount received and current amount receivable (Note 4)	(80,591)	—
Provision to reduce investment in subsidiary to realizable value	—	6,000
Other	1,327	—
Net working capital from (to) operations	505,257	(40,894)
Sale of fixed assets	184,803	293,552
Issue of shares (Note 7)	43,330	569,221
Decrease in investments	248,085	50,055
Net current proceeds from sale of subsidiary	39,063	—
Debt forgiven on government loan	6,200	—
Preferred shares of subsidiary companies issued to minority shareholders	107,000	—
Increase in long-term debt	—	624,561
Dividend paid by subsidiary out of pre-acquisition surplus	—	250,000
Assumption of franchise	—	41,435
	1,133,738	1,787,930
APPLICATION OF WORKING CAPITAL		
Purchase of fixed assets	258,984	64,112
Investment in subsidiary companies less working capital at date of acquisition	554,162	323,965
Additional investment in subsidiary company	2,594	—
Decrease in long-term debt	108,821	—
Increase in mortgage receivable	—	226,099
Increase in advances to subsidiaries	—	209,281
	924,561	823,457
INCREASE IN WORKING CAPITAL	209,177	964,473
WORKING CAPITAL (DEFICIENCY) AT BEGINNING OF YEAR	956,490	(7,983)
WORKING CAPITAL AT END OF YEAR	$ 1,165,667	$ 956,490

Notes to the Consolidated Financial Statements

1. BASIS OF CONSOLIDATION

The company has the following active subsidiary companies:

Canlin Limited (Canlin)
Diversified Crops Ltd. (Diversified)
Erie Diversified Industries Limited (Erie)
Lanark Furniture (1969) Limited (Lanark)
Twilight Invesments Limited (Twilight)
Martin Draperies Inc. (Martin)
Stitsky's Textile Centres Limited (Stitsky's)

The operations of Stitsky's-Martin have been integrated with effect from the date of acquisition of Martin.

2. INVENTORIES

Inventories are valued at the lower of cost and net realizable value except for certain departments at certain locations of Stitsky's-Martin. The inventory for these departments was estimated by Stitsky's-Martin management based on normal operating inventory levels at December 31, 1971 and on gross profit percentages. Of the total inventory of $2,941,052, $2,786,962 has been substantiated by physical count. The directors of Erie, because of the discrepancy between the subsidiaries' management's inventory and physical counts have deemed it advisable to allow for a provision for inventory shortage pending a recount during 1972.

3. SUBSIDIARY COMPANIES

(a) During the year, Canlin acquired an additional 33.33% interest in the common shares of Diversified Crops Ltd., increasing its holdings to 83.33%. Consideration for the acquisition was a cash payment of $6,667.

(b) During the year Erie sold all its shares in and loans receivable from H. A. Ball & Sons, Ltd. Consideration for the sale was cash $39,800; 8% subordinated convertible redeemable sinking fund debentures of Erie Diversified Industries Limited $60,000; $65,000 of fully-paid and non-assessable preference shares of the purchaser; and assumption of $220,000 6% notes payable due 1974, secured by mortgages on the fixed assets of Ball.

Concurrently with this sale, Erie assumed certain liabilities of Ball in the amount of $75,000, issuing therefor the 7% convertible notes referred to in Note 6.

(c) During the year, Erie acquired 100% of Martin Draperies Inc. The total consideration for this acquisition is to be $27,000 cash, the guarantee of notes payable and Class "A" preference shares of Erie. The number of these shares is to be determined by a formula based upon the average earnings of Martin for the four years commencing with the 1972 year and the average market price of the Class "A" preference shares of Erie. Annual instalments are required in 1972 with the balance of shares to be issued in 1976.

4. DISCONTINUANCE OF MILK PROCESSING PLANT

During 1970, the company ceased to operate its milk processing plant and recorded a non-recurring loss from operations of $130,293. In 1971, the company disposed of its milk quota rights and equipment and wrote down the remaining land and buildings to their estimated net realizable value. After receipt of a Government of Ontario grant under the Plant Consolidation Assistance Program, these transactions have resulted in a non-recurring gain in 1971 of $38,078.

The long-term accounts receivable resulting from the sale of milk quota rights is being repaid during the period ending 1975. Annual instalments are based on actual milk deliveries made to the purchaser of the quota in each of the years. It is estimated that $26,000 will be received in 1972.

5. FIXED ASSETS

Fixed assets are valued at cost except for land and buildings of the milk processing plant which were written down to estimated net realizable value in 1971. (Note 4)

6. LONG-TERM DEBT

	1971	1970
Non-interest bearing notes secured by shares of Stitsky's due — 1971	$ —	$ 50,000
— 1972	45,580	45,580
	45,580	95,580
Non-interest bearing redeemable debentures secured by shares of Lanark due — 1971	—	450,000
1974 and convertible at the rate of 49½ Class "A" preference shares of Erie for $1,000 principal amount	100,000	100,000
	100,000	550,000
8% Subordinated convertible redeemable sinking fund debentures due 1989. Sinking fund payments sufficient to retire $25,000 principal amount are required in each of the years 1974 to 1988. The debentures are convertible at the rate of 80 Erie Class "A" preference shares for each $1,000 principal amount	455,000	465,000
Less inter-company holdings and amounts acquired by the company and not cancelled	114,000	82,000
	341,000	383,000
8% Subordinated redeemable convertible debentures due 1991. The debentures are convertible at the rate of 1 Erie Class "A" preference share for each $7 of principal amount until July 31, 1976, $9 to July 31, 1981 and $12 to July 31, 1991	300,000	—
7% Convertible redeemable notes, due April 1, 1973. Convertible at the rate of 1 Class "A" preference share of Erie for each $5.50 principal amount	75,000	—
Less inter-company holding	43,514	—
	31,486	—
6% Notes payable due 1974 secured by mortgages on the fixed assets of Ball	—	220,000
8¼% Subordinated redeemable sinking fund debentures due 1980 repayable by annual sinking fund payments of $30,000	$ 266,000	$ 300,000
Less amounts acquired by the company and not cancelled	13,000	—
	253,000	300,000

	1971	1970
Debentures payable secured by an interest-free $225,000 mortgage receivable and common shares of Erie. Interest is payable at the rate of 2⅛% per annum to 1975 and thereafter at the rate of 8½%. Principal payments commence in 1975. The debentures are convertible into 1 Class "A" share and 1 common share of the company for each $9.00 of debenture principal	279,905	385,000
Less amounts acquired by the company and not cancelled	75,000	—
	204,905	385,000
9% Fully subordinated debentures maturing in 1976 and 1977	40,894	—
7% First mortgage payable at the rate of $350 per month, principal and interest	21,675	—
8¼% Debentures repayable $7,250 quarterly	19,750	48,750
Interest-free debenture, forgivable at the option of the lender at the rate of $6,200 annually until 1973, with the balance forgivable in 1974	—	55.800
	1,358.290	2,038,130
Current portion	99,530	559.000
	$1,258,760	$1.479.130

7. CAPITAL STOCK

(a) Changes during the year in issued capital stock were as follows:

	Class "A"		Common	
December 31, 1970	328,160	$692,412	148,125	$121,652
Issue of shares for cash upon exercise of Class "A" warrants at $1.40	30,950	43.330	—	—
December 31, 1971	359.110	$735,742	148,125	$121,652

(b) Shares have been reserved for issuance as follows:

	Class "A"	Common
Executive and employee stock option plan (Note 8)	15,000	—
Share purchase warrants exercisable on or before April 1, 1975 at $1.40 per share and between April 2, 1975 and April 1, 1980 at $2.00 per share	44,050	250,000
Canlin Limited debentures, convertible after September 30, 1973 and until September, 1980 into 1 Class "A" and 1 common share of the company for each $9.00 of debenture principal	22,967	22,967
	82,017	272,967

8. STOCK OPTION PLAN

Options to purchase 10,750 Class "A" preference shares have been granted to certain executives and employees of the company and its subsidiary, Canlin. The options, which expire October 10, 1975, were granted at $1.50 per share, being 90% of the market value of the shares as at the date granted.

9. EXTRAORDINARY ITEMS

	1971	1970
Gain (loss) on discontinuance of milk processing plant (Note 4)	$ 38,078	($130,293)
Recovery of non-recurring loss written off in a previous year	17,211	—
Gain on disposal of Montreal land	—	174,972
Write-down of investments	—	(15,687)
	$ 55.289	$ 28,992

10. CONTINGENT LIABILITIES

Erie is contingently liable as follows:

(a) As guarantor of the $220,000 6% notes assumed by the purchaser of Ball (Note 3)

(b) As guarantor of $37,200 notes payable by the former majority shareholders of Martin Draperies Inc.

11. UNFUNDED PENSION LIABILITY

According to an actuarial valuation made as at December 31, 1971, past service contributions to Canlin's registered pension plan amounting to approximately $23,900 per year will be adequate to liquidate the remaining liability of $200,100.

12. SUBSEQUENT EVENTS

(a) Erie has entered into an agreement to acquire 100% of the common stock and 171,000 preferred shares of Geoform Designs Inc. The total consideration for this acquisition is to be $50,000 cash and Class "A" preference shares of the company. The number of shares is to be determined by a formula based on the average earnings of Geoform Designs Inc. over the next five years and the average market price of the Class "A" preference shares of the company.

(b) Notes and debentures of Erie totalling $149,500 have been submitted for conversion into 15,269 Class "A" preference shares of Erie.

13. OTHER STATUTORY INFORMATION

(a) Minimum annual rentals under leases of more than three years' duration — $380,270

(b) Remuneration to directors and senior officers — $109,176

(c) Interest on long-term debt — $99,832

14 EARNINGS PER SHARE

	1971		1970
	Basic	Fully Diluted	
Earnings before extraordinary items and after provision for inventory shortage	17.0¢	12.3¢	.4¢
Earnings after extraordinary items and provision for inventory shortage	28.0¢	18.8¢	3.4¢

Earnings per share have been calculated using the weighted monthly average number of shares oustanding during the year and after recognizing preferential dividends paid. No dividends were declared on Class "A" shares during either year and earnings have been allocated equally to each share regardless of class.

Auditors' Report

To the shareholders,
Quinte-Canlin Limited.

We have examined the consolidated balance sheet of Quinte-Canlin Limited and subsidiary companies as at December 31, 1971 and the consolidated statements of earnings and retained earnings and source and application of working capital for the year then ended. Our examination included a general review of the accounting procedures and such tests of the accounting records and other supporting evidence as we considered necessary in the circumstances, except as explained below.

We were not able to satisfy ourselves as to the inventory values at December 31, 1971 or the adequacy of provision for inventory shortage (Note 2).

Because of the possible effects of any adjustments which may have been required to inventories and provision for inventory shortage, we express no opinion on the overall financial position of the companies as at December 31, 1971, the results of their operations or the source and application of their working capital for the year then ended.

In our opinion, however, the assets (other than inventories), the liabilities and the share capital of the company as at December 31, 1971 are presented fairly in the consolidated balance sheet, the revenue and expenses (other than cost of sales and provision for inventory shortage) for the year then ended are presented fairly in the consolidated statement of earnings and retained earnings and items comprising source of working capital (other than current operations) and application of working capital are presented fairly in the consolidated statement of source and application of working capital, all in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

HYDE, HOUGHTON & CO.

Chartered Accountants

June 6, 1972

Toronto, Ontario.

dward Parker Public Relations Limited
ox 158, Toronto-Dominion Centre
oronto 111, Canada — 366-8957

FOR RELEASE ON RECEIPT
Wednesday, June 9, 1971

from:
QUINTE-CANLIN LIMITED,
2215 Notre Dame St. East,
Montreal 133, P.Q.

QUINTE-CANLIN REPORTS RESULTS FOR FISCAL 1970

Results of Quinte-Canlin Limited for the year ended December 31, 1970, were announced today by J. O. McCutcheon, president.

Sales for the year were $7,286,828, with an operating loss of $2,148; mutually offsetting extraordinary items brought net earnings for the period to $14,235.

Earnings per combined common and Class A share were 3.4¢. Working capital at December 31, 1970, increased to $956,490 from a deficiency of $7,983 in 1970.

Mr. McCutcheon said that during 1970 the company changed the nature of its operations through the acquisition of Canlin Limited and of control of Erie Diversified Industries Limited. For this reason, he added, no meaningful comparison could be made with the previous year in the statement of earnings.

It is anticipated that fiscal 1971 will show a substantial improvement in profitability, Mr. McCutcheon said.